

GENERAL PROVISIONS OF THE GENERAL APPROPRIATION ACT AND OTHER OVERALL ISSUES

In addition to the specific appropriations to agencies, departments and institutions, the FY 2020 General Appropriation Act provides direction regarding several general provisions.

General Provisions

Statewide Adjustments — Each individual agency narrative refers to the allocation of statewide adjustments. The *Agency Detail and Allocations* section includes the specific adjustments for each agency.

Section 171 of the General Appropriation Act makes statewide adjustments totaling \$2,047,800 from the General Fund and \$6,453,400 from Other Appropriated Funds in FY 2020 for changes in 10 areas:

- **Employer Health Insurance Contribution Reduction:** \$(9,967,600) General Fund and \$(10,000,000) Other Appropriated Funds for a one-time reduction in the employer contribution rates for employee health insurance. This amount backs out the FY 2019 one-time premium adjustment. *(Please see Health Insurance discussion below for more details.)*
- **Employer Health Insurance Contribution Increase:** \$10,544,400 General Fund and \$10,000,000 Other Appropriated Funds for a one-time increase in the employer contribution rates for employee health insurance. *(Please see Health Insurance discussion below for more details.)*
- **Elected Officials Retirement Adjustments:** \$287,800 General Fund for elected officials' retirement contribution rate adjustments. *(Please see State Retirement Systems below for more details.)*
- **Retirement Adjustments:** \$4,000,000 Other Appropriated Funds for retirement contribution rate adjustments. *(Please see State Retirement Systems below for more details.)*
- **Agency Risk Management Adjustments:** \$2,341,700 General Fund and \$623,400 Other Appropriated Funds for adjustments to agency Risk Management premiums. *(Please see Risk Management below for more details.)*
- **State Building Rent Increases:** \$2,023,000 General Fund and \$900,000 Other Appropriated Funds for rental rate increases at state-owned buildings. *(Please see Building Payments below for more details.)*
- **Shared Services Adjustments:** \$10,600 General Fund and \$100,000 Other Appropriated Funds for adjustments for associated with shared services in

the 1740 W. Adams state office building, including security, Wi-Fi, and conference rooms.

- **Correctional Officer Retirement Adjustments:** \$(3,710,000) General Fund for Correction Officer Retirement rate adjustments. *(Please see State Retirement Systems below for more details.)*
- **Information Technology (IT) Pro Rata Adjustments:** \$1,067,700 General Fund and \$900,000 Other Appropriated Funds for adjustments to IT pro rata adjustments. *(Please see Information Technology Planning below for more details.)*

Employee Salary Increase — Section 172 of the General Appropriation Act as well as several agency sections appropriate a total of \$69,735,100 General Fund and \$2,291,600 Other Appropriated Funds for state employee salary increases at various state agencies. *Table 1* details the appropriations by agency. *(Please see individual agency sections for more information.)*

Expenditure Reporting — Section 174 continues to state that it is the intent of the Legislature that all budget units receiving appropriations continue to report actual, estimated and requested expenditures by budget programs and classes in a format similar to the one used for budgetary purposes in prior years. The purpose of this section is to ensure stability and consistency in the expenditure reporting regardless of yearly changes in appropriation formats. A different format may be used if agreed to by the Director of the JLBC and incorporated into the budget instructions issued by the Governor's Office of Strategic Planning and Budgeting.

FTE Position Reporting — Section 175 continues to state that the Full Time Equivalent (FTE) Positions contained in the General Appropriation Act sections are subject to appropriation. The section directs the Director of the Arizona Department of Administration (ADOA) to account for the utilization of all appropriated and non-appropriated FTE Positions, excluding FTE Positions in the Universities. The Director shall submit the FY 2020 report by October 1, 2020 to the Director of the JLBC.

The reports shall compare the level of FTE Position usage in each fiscal year to the appropriated level. This section defines FTE Positions as total number of hours worked, including both regular and overtime hours as well as hours taken as leave, divided by the number of hours in a work year. The ADOA Director shall notify the director of each budget unit if the budget unit has exceeded its number of appropriated FTE Positions. The Universities

Table 1

FY 2020 State Employee Salary Increases

<u>Agency</u>	<u>Position/% Change</u>	<u>General Fund</u>	<u>Other Funds</u>
Department of Agriculture	Livestock Officers / Not Specified	29,900	-
Department of Agriculture ^{1/}	Dairy Inspectors / 12%	21,000	-
Attorney General	Investigators / Not Specified	54,800	20,700
Department of Child Safety	Various Positions / Not Specified	5,459,000	963,400
Corporation Commission	Special Investigators / Not Specified	-	18,500
Department of Corrections	Various Positions / 5-13%	35,479,300	-
Game and Fish Department	Wildlife Staff / Not Specified	-	485,700
Department of Health Services ^{1/}	Radiation Regulation Staff / 21%	-	132,200
Department of Health Services	Various Positions / Not Specified	2,793,400	-
Department of Insurance	Fraud Investigators / Not Specified	19,900	-
Judiciary ^{1/}	Court Staff / 5%	1,146,400	-
Department of Juvenile Corrections	Security & Teachers / 15% & 9%	3,241,300	-
Department of Liquor Licenses	Investigators / Not Specified	-	85,800
Arizona State Parks Board	Officers / Not Specified	-	75,300
Department of Public Safety	Sworn Officers & Civilians / 10% & 5%	21,490,100	-
Department of Transportation	Compliance Officers / Not Specified	-	510,000
Total		\$69,735,100	\$2,291,600

^{1/} These appropriations were included in their individual agency sections.

shall report to the JLBC Director in a manner comparable to the ADOA report.

Filled FTE Position Reporting — Section 176 continues to state that by October 1, 2019 each agency, including the Judiciary and the Universities, shall submit a report to the JLBC Director on the number of filled, appropriated and non-appropriated FTE Positions by fund source. The report shall reflect the number of filled, appropriated FTE Positions as of September 1, 2019.

Transfer Authority — Section 177 continues to require ADOA to provide a monthly report to the JLBC Staff on any agency transfers of spending authority from one expenditure class to another or between programs.

Interim Reporting Requirements — Section 178 continues to require the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2019 General Fund ending balance by September 15, 2019. Based on this information, JLBC Staff shall report to JLBC by October 15, 2019 as to whether FY 2020's revenues and ending balance are expected to change by more than \$50,000,000 from the budgeted projections. Section 178 states the revenues are forecasted to be \$11,428,600,000 for FY 2019 and \$11,514,400,000 for FY 2020 (these figures are now estimated at \$11,428,600,000 and \$11,918,600,000 to reflect technical adjustments). While both figures include one-time revenues, the FY 2019 figure also includes the beginning balance.

Section 178 also provides revenue and expenditure estimates for FY 2021 and FY 2022 pursuant to A.R.S. § 35-125, which requires the General Appropriation Act to delineate the revenue and expenditure estimates for the budget year and the following 2 years based on existing statutory funding requirements. *(Please see the Budget Highlights section for more details on FY 2021 and FY 2022 estimates.)*

Expenditure Authority — Section 180 continues to state that for purposes of the General Appropriation Act, "expenditure authority" means that the fund sources are continuously appropriated monies that are included in the individual line items of appropriations.

JLBC Review — Section 181 continues to state that for purposes of the General Appropriation Act, "review by the Joint Legislative Budget Committee" means a review by a vote of a majority of a quorum of the members.

Statewide Standard Changes

In addition to the adjustments to agency budgets and general provisions outlined previously, the FY 2020 budget reflects the adoption of technical assumptions. These technical assumptions are incorporated into each agency's individual appropriation in the FY 2020 General Appropriation Act. Statewide adjustment amounts are mentioned in any relevant agency narrative, but do not have additional discussion.

Table 2 Health Insurance State Employee and Employer Monthly Contributions FY 2020		
	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>Exclusive Provider Organization (EPO)</u>		
Employee	\$ 45.32	\$ 582.62
Employee Plus One Adult	134.83	1,197.01
Employee Plus One Child	114.43	777.53
Family	250.39	1,311.41
<u>Preferred Provider Organization (PPO)</u>		
Employee	115.57	592.15
Employee Plus One Adult	243.60	1,252.09
Employee Plus One Child	163.15	837.91
Family	284.38	1,460.78
<u>Health Spending Account (HSA) Option</u>		
Employee	22.00	454.06 ^{1/}
Employee Plus One Adult	66.00	936.72 ^{1/}
Employee Plus One Child	56.10	653.89 ^{1/}
Family	122.10	1,029.94 ^{1/}
^{1/} Includes deposit of \$60 into Single Employee account and \$120 into all other Employee accounts.		

Employee Related Expenditures

Health Insurance — The state continues to self-insure state employee health benefits. Under self-insurance, the state assumes the risk of providing health coverage to state employees and pays the health claims directly. Therefore, if the costs of employee health coverage exceed estimates, the state will be responsible for those losses. Similarly, if the costs are less than estimated, the state will retain the savings.

Employees have a choice between an Exclusive Provider Organization (EPO, which is the self-insured equivalent of an HMO), a Preferred Provider Organization (PPO) and a Health Savings Account (HSA). An HSA allows for pre-tax contributions and healthcare-related withdrawals, combined with a high-deductible coinsurance plan.

Employee and employer premiums for the FY 2020 are shown in *Table 2*. The FY 2020 budget effectively continued the one-time FY 2019 employer premium increase by increasing FY 2020 employer premiums by 0.5%. Employee premiums will remain the same, but deductibles will increase.

Dental Insurance — Employees have a choice between one Dental PPO plan and one Dental HMO plan. Employee and employer premiums for FY 2020 are shown in *Table 3*.

(Please see the Health Insurance Trust Fund section in the ADOA narrative for more details on overall HITF balances.)

In addition to health and dental insurance, the following items are components of an agency's Employee Related Expenditures.

Employer Contribution Rates — *Table 4* provides a list of budgeted state employer contribution rates for state employee benefits during FY 2020. These rates may be different from actual funded charges (e.g., the Social Security FICA maximum may increase.) Except for life insurance, these rates are calculated as a percent of Personal Services. Except as noted, the budget does not include funding for the changes in rates.

Table 3 Dental Insurance State Employee and Employer Monthly Contributions FY 2020		
	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>DHMO</u>		
Employee	\$3.56	\$4.96
Employee + 1 Adult	7.12	9.92
Employee + 1 Child	6.67	9.92
Family	11.84	13.70
<u>PPO</u>		
Employee	30.98	4.96
Employee + 1 Adult	65.71	9.92
Employee + 1 Child	50.56	9.92
Family	104.56	13.70

Table 4

FY 2019 Employer Contribution Rates

<u>Category</u>	<u>Rate</u>
Life Insurance (per FTE Position)	\$17.94
Unemployment Insurance	0.10%
Personnel Division Pro Rata	0.86%
Disability (ASRS)	0.17%
Disability (PSPRS Defined Benefit)	2.14%
Disability (PSPRS Defined Contribution)	1.51%
Disability (CORP Defined Benefit)	0.32%
Disability (CORP Defined Contribution)	0.70%
Information Technology Planning	0.43%
Retiree Accumulated Sick Leave	0.40%
Workers' Compensation	Varies
<u>Federal Insurance Contributions Act (FICA)</u>	
Social Security (salary max \$128,700)	6.20%
Medicare (no salary cap)	1.45%
<u>Retirement System</u>	<u>1/</u>
1/ See Consolidated Retirement Report section for contribution rates.	

Life Insurance - \$17.94 per employee per year, unchanged from the FY 2019 rate.

Unemployment Insurance - 0.10% of Personal Services for each agency, unchanged from the FY 2019 rate.

Personnel Division Pro Rata - 0.86% of Personal Services for each agency in the State Personnel System, unchanged from the FY 2019 rate. Of this amount, 0.83% is used to fund the ADOA Human Resources Division while the other 0.03% is used to fund the State Personnel Board.

The following agencies are not incorporated into state personnel system oversight and are therefore exempt from paying the pro rata charge:

- Arizona State Schools for the Deaf and the Blind
- Legislative agencies (House of Representatives, Senate, Legislative Council, Auditor General, Joint Legislative Budget Committee)
- Judiciary (Supreme Court, Court of Appeals, Superior Court)
- Department of Public Safety
- Universities (including Arizona Board of Regents)

Disability Insurance - For Arizona State Retirement System (ASRS) employees, the employer pays 0.17% of Personal Services for disability insurance, a 0.01% increase over the FY 2019 rate. The employee rate will also increase to 0.17%.

Employer rates in the Public Safety Personnel Retirement System (PSPRS) and the Corrections Officer Retirement Plan (CORP) vary depending on whether the employee is

participating in the defined benefit plan or defined contribution plans. For PSPRS defined-benefit employees, the employer-only disability insurance rate will be 2.14% in FY 2020, unchanged from FY 2019; the rate for defined-contribution employees will be 1.51%. For CORP defined-benefit employees, the employer-only rate is 0.32%; the rate for defined-contribution employees will be 0.70%.

Information Technology Planning - 0.43% of Personal Services for each agency, an increase of 0.13% from the FY 2019 rate as authorized in the FY 2020 Budget Procedures Budget Reconciliation Bill (BRB). The government information technology review function in ADOA's budget is funded from an assessment on the payroll of all state agencies except the Universities. (Please refer to *Statewide Adjustments above and the Arizona Department of Administration narrative for more details.*)

Retiree Accumulated Sick Leave - 0.40% of Personal Services for each agency, unchanged from the FY 2019 rate. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies. The fund is used to make payments to state employees who retire with 500 or more hours of sick leave. Employees' payments depend on the number of hours of sick leave and their salary, with the payment capped at 50% of 1,500 hours of sick leave, or \$30,000 maximum.

Workers' Compensation - The rates calculated by ADOA vary by individual agency and are changed from the FY 2019 workers' compensation rates. ADOA estimates the average statewide rate is 0.97% in FY 2020, an increase from the average statewide FY 2019 rate of 0.78%. The budget does not adjust agency budgets for these changes. Monies are deposited into the Risk Management Fund for payment of costs associated with Workers' Compensation losses. (Please see the ADOA narrative for more details.)

Federal Insurance Contributions Act (FICA) – Effective Social Security taxes are paid at a rate of 6.20% up to \$132,900 of an employee's salary, an increase from the previous maximum of \$128,400. The rate is unchanged from FY 2019.

In addition, Medicare employer taxes are applied at a rate of 1.45% on the full level of an employee's salary. This rate is unchanged from FY 2019. Effective January 1, 2013, the federal Affordable Care Act imposed an additional 0.9% Medicare withholding on employees for the amount of salaries above \$200,000. Employees will continue to be withheld at 1.45% for salaries below \$200,000. This additional 0.9% withholding does not apply to the employer-paid portion of the Medicare tax.

State Retirement Systems - There are 5 state employee retirement systems -- ASRS, PSPRS, CORP, the Elected Officials' Retirement Plan (EORP), and the Elected Officials' Defined Contribution (EODC) System. In addition, the Universities operate their own defined contribution plan. FY 2020 rates as determined by the state's retirement systems have changed from the FY 2019 rates. *(Please see the Consolidated Retirement Report for more information.)*

The FY 2020 budget adds a total of \$6,483,000 in appropriated funding for retirement. This amount is for increased costs in employer retirement contributions in DPS (PSPRS) and the Superior Court (CORP), appropriated within their respective budgets. The appropriations are as follows:

- \$4,129,000 GF for the Department of Public Safety (DPS)
- \$2,354,000 GF for the Superior Court

The Superior Court amount is labeled as a one-time increase. These amounts are in addition to the \$(3,422,300) GF and \$3,989,900 OF statewide adjustments for state agency retirement and elected officials' retirement costs. *(Please see the DPS and Superior Court narratives and Statewide Adjustments above for more details. Please see the Consolidated Retirement Report for more details on retirement contribution rates, enrollment and funded status, and litigation impacts.)*

Other Operating Expenditures

The following items are included in agencies' Other Operating Expenditures.

Risk Management — Individual agency budgets' Other Operating Expenditures include funding to pay the Risk Management charges billed to agencies by the ADOA Risk Management Program. The billings vary by individual agency and are slightly higher overall from the FY 2019 rates. The budget does not adjust agency budgets for these changes. FY 2020 rates changed based on ADOA's actuarial assessment of each agency's risk. *(Please see the Risk Management Charges table following this section for more details on overall charges.)*

Monies are deposited into an ADOA fund for payment of costs associated with Risk Management losses. The state self-insures for Risk Management services by assessing agencies charges based on actuarial projections and paying claims against the state.

Attorney General — Section 173 outlines \$1,798,500 in charges to selected state agencies for Attorney General

services, unchanged from the FY 2019 amount. *(Please see the Attorney General narrative for details.)*

Building Payments — The Other Operating Expenditures line of individual agency budgets includes rental charges for both state-owned and privately-owned space, lease-purchase payments, and privatized lease-to-own (PLTO) payments for certain buildings.

The FY 2020 Budget Procedures BRB authorizes an increase in rent charges in state-owned office space in FY 2020 to \$17.87/square foot from the FY 2019 rate of \$16.08/square foot, with the charge for state-owned storage space increasing to \$6.43/square foot from \$5.79/square foot. These rates are based upon usable square feet. The budget includes \$2,923,000 in total appropriated funds for this adjustment. *(Please see the ADOA Capital Outlay section for more details.)*

Funding is also included in budgets for all agencies housed in buildings acquired by lease-purchase or PLTO, including changes to those payments. *(Please refer to Statewide Adjustments above and the Rent, Lease-Purchase, and PLTO schedules in the Capital Outlay section for more details.)*

Other Budget Issues

Administrative Adjustments — The budget assumes that state agencies will expend \$128,000,000 in FY 2020 for FY 2019 obligations. Agencies are permitted to make "administrative adjustments" for expenditures obligated in FY 2019 but for which the state was unbilled until FY 2020. An agency's administrative adjustments cannot exceed its prior year revertment, or unused appropriation authority. The \$128,000,000 is \$2,000,000 higher than the budgeted FY 2019 total of \$126,000,000.

The budgeted FY 2019 estimate of \$126,000,000 is \$26,000,000 higher than the originally-budgeted administrative adjustment total.

Revertments — The budget assumes that state agencies will revert \$(173,000,000) of FY 2020 appropriations back to the General Fund because the agencies will not spend their entire appropriation. In comparison, the FY 2019 budgeted total is \$(171,000,000).

The originally-budgeted FY 2019 revertment total was \$(145,000,000).

Budget Format — The format governs how an agency's appropriation appears in the General Appropriation Act. A less detailed format provides an agency with more discretion in implementing the budget. Conversely, a more detailed format may require an agency to use

formal processes for redirecting appropriated funds.
Among the choices are the following:

Lump Sum - The appropriation for each fiscal year consists of a single dollar amount, thereby allowing the agency to shift funds among line items, programs and subprograms without further Legislative or Executive Branch review.

Lump Sum with Special Line Items - The appropriation for each fiscal year consists of a dollar amount for an operating budget and dollar amounts for individual special line items. Special line items are particular programs for which the Legislature has a specific policy interest. These line items may or may not include FTE Positions. Agencies are typically permitted to transfer funding between line items with Executive Branch approval but without further Legislative Branch review. Footnotes may require JLBC review, however, prior to transfers between certain line items.

90/10 Agencies — The following 28 regulatory agencies are called “90/10” agencies for the fact that these agencies retain 90% of their revenues and deposit the other 10% into the General Fund:

Arizona State Board of Accountancy
Acupuncture Board of Examiners
Board of Athletic Training
Board of Barbers
Board of Behavioral Health Examiners
State Board of Chiropractic Examiners
Registrar of Contractors
Board of Cosmetology
State Board of Dental Examiners
State Board of Funeral Directors and Embalmers
Board of Homeopathic and Integrated Medicine
Examiners
Board of Massage Therapy
Arizona Medical Board
Naturopathic Physicians Medical Board
State Board of Nursing
Board of Examiners of Nursing Care Institution
Administrators and Assisted Living Facility Managers
Board of Occupational Therapy Examiners
State Board of Dispensing Opticians
State Board of Optometry
Arizona Board of Osteopathic Examiners in Medicine and
Surgery
Arizona State Board of Pharmacy
Board of Physical Therapy
State Board of Podiatry Examiners
State Board for Private Postsecondary Education
State Board of Psychologist Examiners
Board of Respiratory Care Examiners
State Board of Technical Registration
Arizona State Veterinary Medical Examining Board